

SIDNEY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Sidney Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 election)		
Rusty Monroe	President	2007
Debbie Grudle	Vice President	2006
Jo Ann Birkby	Board Member	2005
Heidi Lowthorp	Board Member	2006
Jeff Jorgenson	Board Member	2007
Board of Education (After September 2005 election)		
Rusty Monroe	President	2007
Jeff Jorgenson	Vice President	2007
Debbie Grudle	Board Member	2006
Janet Teten	Board Member	2008
Heidi Lowthorp	Board Member	2006
School Officials		
Gregg Cruickshank	Superintendent	2006
Joyce Morgan	District Secretary/Treasurer	2006
Johnson Law PLC	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Sidney Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sidney Community School District, Sidney, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Sidney Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2006 on our consideration of the Sidney Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sidney Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 9, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sidney Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,312,461 in fiscal year 2005 to \$3,491,319 in fiscal year 2006, while General Fund expenditures increased from \$3,162,596 in fiscal 2005 to \$3,269,998 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$219,401 in fiscal 2005 to a balance of \$456,657 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in state grant revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- Overall, the District's net assets increased in the governmental activities and decreased in business-type activities, \$544,252 and \$11,105, respectively.

USING THIS ANNUAL REPORT

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The governmental funds statements explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section or required supplementary information that further explains and supports the financial statements with a comparison on the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Sidney Community School District Annual Financial Report

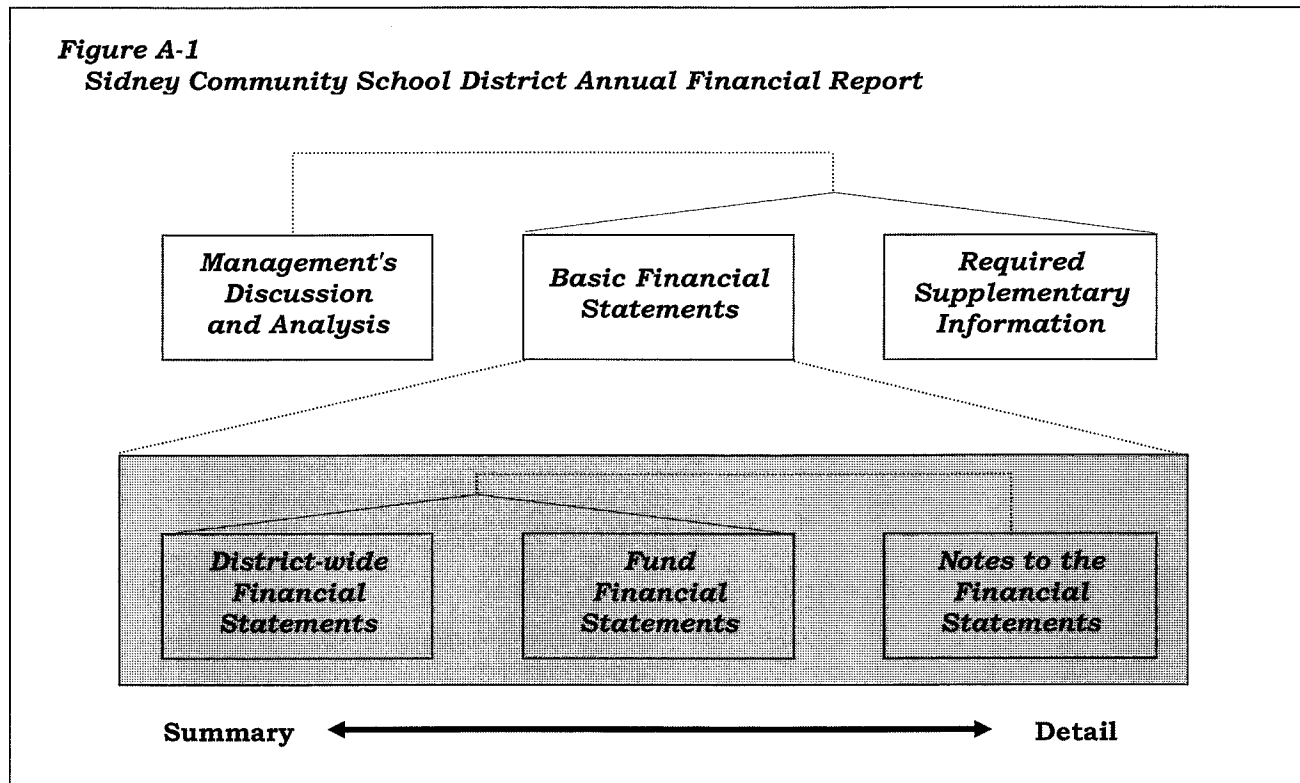


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund for the handling of flex benefits.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 5,627,850	5,894,711	11,340	14,784	5,639,190	5,909,495	-4.57%
Capital assets	3,922,825	3,754,981	39,264	46,800	3,962,089	3,801,781	4.22%
Total assets	9,550,675	9,649,692	50,604	61,584	9,601,279	9,711,276	-1.13%
Long-term obligations	5,238,701	5,335,189	0	0	5,238,701	5,335,189	-1.81%
Other liabilities	2,499,347	3,046,128	11,322	11,197	2,510,669	3,057,325	-17.88%
Total liabilities	7,738,048	8,381,317	11,322	11,197	7,749,370	8,392,514	-7.66%
Net assets:							
Invested in capital assets, net of related debt	1,197,313	901,484	39,264	46,800	1,236,577	948,284	30.40%
Restricted	64,319	50,369	0	0	64,319	50,369	27.70%
Unrestricted	550,995	316,522	18	3,587	551,013	320,109	72.13%
Total net assets	\$ 1,812,627	1,268,375	39,282	50,387	1,851,909	1,318,762	40.43%

The District's combined net assets increased by 40.43%, or \$533,147, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$13,950, or 27.70% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$230,904, or 72.13%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance which occurred due increased property taxes and Medicaid reimbursements.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 264,269	319,657	81,428	75,918	345,697	395,575	-12.61%
Operating grants and contributions and restricted interest	531,894	472,890	85,722	78,507	617,616	551,397	12.01%
General revenues:							
Property tax	1,569,243	1,441,048	0	0	1,569,243	1,441,048	8.90%
Local option sales and service tax	185,451	195,676	0	0	185,451	195,676	-5.23%
Unrestricted state grants	1,444,753	1,373,239	0	0	1,444,753	1,373,239	5.21%
Unrestricted investment earnings	117,176	91,126	22	38	117,198	91,164	28.56%
Other	36,537	2,100	0	0	36,537	2,100	1639.86%
Total revenues	4,149,323	3,895,736	167,172	154,463	4,316,495	4,050,199	6.57%
Program expenses:							
Governmental activities:							
Instructional	2,035,099	2,119,948	0	0	2,035,099	2,119,948	-4.00%
Support services	1,159,379	995,140	0	0	1,159,379	995,140	16.50%
Non-instructional programs	0	0	178,277	166,159	178,277	166,159	7.29%
Other expenses	410,593	528,175	0	0	410,593	528,175	-22.26%
Total expenses	3,605,071	3,643,263	178,277	166,159	3,783,348	3,809,422	-0.68%
Net income(loss) before capital contributions	544,252	252,473	(11,105)	(11,696)	533,147	240,777	121.43%
Capital contributions	0	0	0	19,559	0	19,559	-100.00%
Changes in net assets	544,252	252,473	(11,105)	7,863	533,147	260,336	104.79%
Beginning net assets	1,268,375	1,015,902	50,387	42,524	1,318,762	1,058,426	24.60%
Ending net assets	\$ 1,812,627	1,268,375	39,282	50,387	1,851,909	1,318,762	40.43%

In fiscal 2006, property tax and unrestricted state grants account for 72.6% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$4.32 million of which \$4.15 million was for governmental activities and less than \$0.17 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.57% increase in revenues and a 0.68% decrease in expenses. Unrestricted state grants increased \$71,514 and property tax increased \$128,195 to fund increases in expenditures.

Governmental Activities

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,035,099	1,350,236
Support services	1,159,379	1,157,284
Other expenses	410,593	301,388
Totals	<u>\$ 3,605,071</u>	<u>2,808,908</u>

- The cost of all governmental activities this year was \$3,605,071.
- A portion of the cost financed by users of the District's programs was \$264,269.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$531,894.
- The net cost portion of governmental activities was financed with \$1,569,243 in property tax, \$185,451 in local option sales and service tax, \$1,444,753 in unrestricted state grants \$117,176 in interest income.

Business-Type Activities

Revenues of the Districts business-type activities were \$167,172 and expenses were \$178,277. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Sidney Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,051,533, above last years ending fund balance in governmental funds of \$2,767,771.

There are many factors contributing to the improved financial position of the district; mostly due to the districts efforts to control and trim expenditures to meet its financial obligations during the year.

Governmental Fund Highlights

- The District's General Fund financial position improved due to controlled spending which is evidenced by the slight decrease in expenditures when compared to the previous year.
- The District's Physical Plant and Equipment Levy Fund increased by \$7,026. The District invested in improvements to technology and the acquisition of vans.

-
- The District's Capital Projects Fund decreased by approximately 20%. The decrease is due primarily to the District paying off debt during the year and the bus lease the District entered into during fiscal 2006.
 - The District's Management Fund increased by approximately 50% due to the increase in fund revenues surpassing the increase in fund expenditures.
 - The District's Debt Service Fund was able to meet all requirements for repayment of debt due.

Proprietary Fund Highlights

- The School Nutrition Fund decreased slightly because the increase in revenues was not enough to surpass the increase in expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sidney Community School District amended its annual budget one time to reflect addition expenditures.

The District's revenues were \$102,939 more than budgeted receipts, a variance of 2.45%. The most significant variance resulted from the District receiving more from federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested governmental funds of \$3,922,825, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$210,732.

The original cost of the District's capital assets was \$ 6.4 million. Governmental funds accounted for \$6.3 million, with the remainder of \$.1 million accounted for in the Proprietary, School Nutrition Fund.

The largest category change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$365,108 at June 30, 2006 compared to \$240,158 reported at June 30, 2005. This increase resulted primarily from the purchase of two vans during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 7,500	7,500	0	0	7,500	7,500	0.00%
Buildings	3,534,783	3,489,156	0	0	3,534,783	3,489,156	1.29%
Land improvements	15,434	18,167	0	0	15,434	18,167	-17.71%
Machinery and equipment	365,108	240,158	39,264	46,800	404,372	286,958	29.04%
Total	\$ 3,922,825	3,754,981	39,264	46,800	3,962,089	3,801,781	4.05%

Long-Term Debt

At year-end, the District had \$5,238,701 in general obligation and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$4,480,000 at June 30, 2006.

The District had total outstanding Qualified Zone Academy Bonds payable of \$700,000 at June 30, 2006.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Fund of \$1,698 at June 30, 2006.

The District had a computer lease payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$11,292 at June 30, 2006.

As of June 30, 2006, the District had a bus lease payable of \$45,711. This lease is payable from the Capital Projects Fund.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 4,480,000	4,625,000	-3.1%
Qualified Zone Academy Bonds	700,000	700,000	0.0%
Early retirement	1,698	10,189	-83.3%
Computer lease	11,292	0	100.0%
Bus lease	45,711	0	100.0%
Totals	\$ 5,238,701	5,335,189	-1.8%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Morgan, Board Secretary/Treasurer, Sidney Community School District, 2754 Knox Road, PO Box 609, Sidney, Iowa, 51652.

BASIC FINANCIAL STATEMENTS

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 650,273	0	650,273
U.S. Treasury Securities on deposit with escrow agent	2,114,581	0	2,114,581
Other	1,266,499	8,956	1,275,455
Receivables			
Property tax:			
Delinquent	33,019	0	33,019
Succeeding year	1,411,740	0	1,411,740
Income surtax	93,506	0	93,506
Accrued ISCAP interest (Note 4)	5,028	0	5,028
Due from other governments	53,204	0	53,204
Inventories	0	2,384	2,384
Capital assets, net of accumulated depreciation (Note 5)	3,922,825	39,264	3,962,089
TOTAL ASSETS	9,550,675	50,604	9,601,279
LIABILITIES			
Accounts payable	88,745	33	88,778
Salaries and benefits payable	321,019	10,233	331,252
ISCAP warrants payable (Note 4)	650,000	0	650,000
ISCAP accrued interest payable (Note 4)	4,352	0	4,352
ISCAP unamortized premium	6,123	0	6,123
Accrued interest payable	17,368	0	17,368
Deferred revenue:			
Succeeding year property tax	1,411,740	0	1,411,740
Other	0	1,056	1,056
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	2,245,000	0	2,245,000
Early retirement payable	1,698	0	1,698
Computer lease	3,458	0	3,458
Bus lease	6,937	0	6,937
Portion due after one year:			
General obligation bonds payable	2,235,000	0	2,235,000
Qualified Zone Academy Bonds payable	700,000	0	700,000
Computer lease	7,834	0	7,834
Bus lease	38,774	0	38,774
TOTAL LIABILITIES	7,738,048	11,322	7,749,370
NET ASSETS			
Investment in capital assets, net of related debt	1,197,313	39,264	1,236,577
Restricted for:			
Management levy	32,526	0	32,526
Physical plant and equipment levy	3,152	0	3,152
Other special revenue purposes	28,641	0	28,641
Unrestricted	550,995	18	551,013
TOTAL NET ASSETS	\$ 1,812,627	39,282	1,851,909

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Services	Operating Grants, Contributions and Restricted Interest		Govern- mental Activities	Business- Type Activities	
Expenses						
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,245,291	105,798	401,867	(737,626)	0	(737,626)
Special instruction	476,730	40,227	20,822	(415,681)	0	(415,681)
Other instruction	313,078	116,149	0	(196,929)	0	(196,929)
	2,035,099	262,174	422,689	(1,350,236)	0	(1,350,236)
Support services:						
Student services	134,148	0	0	(134,148)	0	(134,148)
Instructional staff services	133,909	0	0	(133,909)	0	(133,909)
Administration services	373,142	0	0	(373,142)	0	(373,142)
Operation and maintenance of plant services	289,521	0	0	(289,521)	0	(289,521)
Transportation services	228,659	2,095	0	(226,564)	0	(226,564)
	1,159,379	2,095	0	(1,157,284)	0	(1,157,284)
Other expenditures:						
Long-term debt interest	197,662	0	0	(197,662)	0	(197,662)
AEA flowthrough	109,205	0	109,205	0	0	0
Depreciation(unallocated)*	103,726	0	0	(103,726)	0	(103,726)
	410,593	0	109,205	(301,388)	0	(301,388)
Total governmental activities	3,605,071	264,269	531,894	(2,808,908)	0	(2,808,908)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	178,277	81,428	85,722	0	(11,127)	(11,127)
Total business-type activities	178,277	81,428	85,722	0	(11,127)	(11,127)
Total	\$ 3,783,348	345,697	617,616	(2,808,908)	(11,127)	(2,820,035)
General Revenues:						
Property tax levied for:						
General purposes			\$ 1,319,724	0	1,319,724	
Debt service			221,328	0	221,328	
Capital outlay			28,191	0	28,191	
Local option sales and services			185,451	0	185,451	
Unrestricted state grants			1,444,753	0	1,444,753	
Unrestricted investment earnings			117,176	22	117,198	
Gain on disposal of equipment			16,136	0	16,136	
Other			20,401	0	20,401	
Total general revenues			3,353,160	22	3,353,182	
Changes in net assets			544,252	(11,105)	533,147	
Net assets beginning of year			1,268,375	50,387	1,318,762	
Net assets end of year			\$ 1,812,627	39,282	1,851,909	

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 650,273	0	0	650,273
U.S. Treasury Securities on deposit with escrow agent	0	2,114,581	0	2,114,581
Other	800,158	306,101	156,922	1,263,181
Receivables:				
Property tax:				
Delinquent	26,037	4,913	2,069	33,019
Succeeding year	1,091,773	217,995	101,972	1,411,740
Income surtax	93,506	0	0	93,506
Accrued ISCAP interest (Note 4)	5,028	0	0	5,028
Due from other governments	37,658	0	15,546	53,204
TOTAL ASSETS	\$ 2,704,433	2,643,590	276,509	5,624,532
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 81,003	0	5,256	86,259
Salaries and benefits payable	321,019	0	0	321,019
ISCAP warrants payable (Note 4)	650,000	0	0	650,000
ISCAP accrued interest payable (Note 4)	4,352	0	0	4,352
ISCAP unamortized premium	6,123	0	0	6,123
Deferred revenue:				
Succeeding year property tax	1,091,773	217,995	101,972	1,411,740
Income surtax	93,506	0	0	93,506
Total liabilities	2,247,776	217,995	107,228	2,572,999
Fund balances:				
Reserved for:				
Debt service	0	2,425,595	0	2,425,595
Unreserved:				
Designated for special purposes	2,610	0	0	2,610
Undesignated	454,047	0	169,281	623,328
Total fund balances	456,657	2,425,595	169,281	3,051,533
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,704,433	2,643,590	276,509	5,624,532

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 16) \$ 3,051,533

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 3,922,825

Blending of the Internal Service Funds to be reflected on an entity-wide basis. 832

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (17,368)

Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period. 93,506

Long-term liabilities, including bonds payable and qualified zone academy bonds payable, early retirement payable, computer lease payable, and bus lease payable are not due and payable in the current period and, therefore, are not reported in the funds. (5,238,701)

Net assets of governmental activities (page 14) \$ 1,812,627

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,258,915	221,328	277,862	1,758,105
Tuition	146,025	0	0	146,025
Other	114,490	54,078	91,764	260,332
State sources	1,801,305	174	73	1,801,552
Federal sources	170,584	0	0	170,584
Total revenues	3,491,319	275,580	369,699	4,136,598
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,449,298	0	2,247	1,451,545
Special instruction	488,056	0	0	488,056
Other instruction	234,434	0	77,003	311,437
	2,171,788	0	79,250	2,251,038
Support services:				
Student services	134,148	0	0	134,148
Instructional staff services	100,449	0	33,460	133,909
Administration services	360,259	0	9,896	370,155
Operation and maintenance of plant services	248,803	0	39,569	288,372
Transportation services	145,346	0	112,459	257,805
	989,005	0	195,384	1,184,389
Other expenditures:				
Facilities acquisitions	0	0	39,740	39,740
Long-term debt:				
Principal	0	158,207	0	158,207
Interest and fiscal charges	0	196,603	0	196,603
AEA flowthrough	109,205	0	0	109,205
	109,205	354,810	39,740	503,755
Total expenditures	3,269,998	354,810	314,374	3,939,182
Excess(deficiency) of revenues over(under) expenditures	221,321	(79,230)	55,325	197,416
Other financing sources(uses):				
Sale of equipment	15,935	0	201	16,136
Transfers in	0	132,498	45,371	177,869
Transfers out	0	0	(177,869)	(177,869)
Proceeds from computer lease	0	0	15,400	15,400
Proceeds from bus lease	0	0	54,810	54,810
Total other financing sources(uses)	15,935	132,498	(62,087)	86,346
Net change in fund balances	237,256	53,268	(6,762)	283,762
Fund balances beginning of year	219,401	2,372,327	176,043	2,767,771
Fund balances end of year	\$ 456,657	2,425,595	169,281	3,051,533

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 283,762

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 369,434	
Depreciation expense	<u>(201,590)</u>	167,844

Proceeds from issuing long-term liabilities provide current financial resources to governmental fund, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Issued	(70,210)	
Repaid	<u>158,207</u>	87,997

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 628

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (3,411)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (1,059)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	<u>8,491</u>	
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Changes in net assets of governmental activities (page 15) \$ 544,252

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type	
	Activities:	Governmental
	Enterprise	Activities:
	Fund	Internal
	School	Service
	Nutrition	Fund
ASSETS		
Cash and pooled investments	\$ 8,956	3,318
Inventories	2,384	0
Capital assets, net of accumulated depreciation (Note 5)	39,264	0
Total assets	50,604	3,318
LIABILITIES		
Accounts payable	33	2,486
Salaries and benefits payable	10,233	0
Deferred revenue:		
Other	1,056	0
Total liabilities	11,322	2,486
NET ASSETS		
Invested in capital assets, net of related debt	39,264	0
Unrestricted	18	832
Total net assets	\$ 39,282	832

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 81,428	33,155
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	67,907	0
Benefits	26,476	32,527
Services	2,300	0
Supplies	71,640	0
Depreciation	9,142	0
Other	812	0
TOTAL OPERATING EXPENSES	178,277	32,527
OPERATING INCOME (LOSS)	(96,849)	628
NON-OPERATING REVENUES:		
State sources	2,248	0
Federal sources	83,474	0
Interest on investments	22	0
TOTAL NON-OPERATING REVENUES	85,744	0
Changes in net assets	(11,105)	628
Net assets beginning of year	50,387	204
Net assets end of year	\$ 39,282	832

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 76,805	\$ 0
Cash received from miscellaneous operating activities	4,472	33,155
Cash payments to employees for services	(94,140)	(30,365)
Cash payments to suppliers for goods or services	(65,247)	0
Net cash provided by (used in) operating activities	(78,110)	2,790
Cash flows from non-capital financing activities:		
State grants received	2,248	0
Federal grants received	73,905	0
Net cash provided by non-capital financing activities	76,153	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,606)	0
Cash flows from investing activities:		
Interest on investments	22	0
Net increase (decrease) in cash and cash equivalents	(3,541)	2,790
Cash and cash equivalents at beginning of year	12,497	528
Cash and cash equivalents at end of year	\$ 8,956	\$ 3,318
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (96,849)	\$ 628
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Commodities consumed	9,569	0
Depreciation	9,142	0
Increase in inventories	(97)	0
Increase in accounts payable	33	2,162
Increase in salaries and benefits payable	243	0
Decrease in deferred revenue	(151)	0
Net cash used in operating activities	\$ (78,110)	\$ 2,790
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 8,956	\$ 3,318

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$9,569.

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Sidney Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Sidney, Iowa, and the predominate agricultural territory in Fremont County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sidney Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Sidney Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fremont County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006 expenditures did not exceed budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 690

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

Type	Fair Value
U.S. Treasury Securities	\$ 2,114,581

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 9,099
Debt Service	Capital Projects	50,730
Debt Service	Physical Plant and Equipment Levy	4,399
Debt Service Sinking	Capital Projects	68,270
Physical Plant and Equipment Levy	Capital Projects	45,371
Total		<u>\$ 177,869</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	241,841	4,901	241,000	4,248
2006-07A	6/28/06	6/28/07	408,432	127	409,000	104
Total			<u>\$ 650,273</u>	<u>5,028</u>	<u>650,000</u>	<u>4,352</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP had no advance activity in the General Fund for the year ended June 30, 2006.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	7,500	0	0	7,500
Total capital assets not being depreciated	<u>7,500</u>	<u>0</u>	<u>0</u>	<u>7,500</u>
Capital assets being depreciated:				
Buildings	5,085,210	146,620	0	5,231,830
Land improvements	188,376	0	0	188,376
Machinery and equipment	681,280	222,814	16,385	887,709
Total capital assets being depreciated	<u>5,954,866</u>	<u>369,434</u>	<u>16,385</u>	<u>6,307,915</u>
Less accumulated depreciation for:				
Buildings	1,596,054	100,993	0	1,697,047
Land improvements	170,209	2,733	0	172,942
Machinery and equipment	441,122	97,864	16,385	522,601
Total accumulated depreciation	<u>2,207,385</u>	<u>201,590</u>	<u>16,385</u>	<u>2,392,590</u>
Total capital assets being depreciated, net	<u>3,747,481</u>	<u>167,844</u>	<u>0</u>	<u>3,915,325</u>
Governmental activities capital assets, net	<u>\$ 3,754,981</u>	<u>167,844</u>	<u>0</u>	<u>3,922,825</u>

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 94,691	1,606	0	96,297
Less accumulated depreciation	47,891	9,142	0	57,033
Business-type activities capital assets, net	<u>\$ 46,800</u>	<u>(7,536)</u>	<u>0</u>	<u>39,264</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction:		
Regular		\$ 45,423
Other		1,641
Support services:		
Administration		2,987
Operation and maintenance of plant		1,149
Transportation		46,664
		<u>97,864</u>
Unallocated depreciation		<u>103,726</u>
Total depreciation expense - governmental activities		<u>\$ 201,590</u>
Business-type activities:		
Food services operations		<u>\$ 9,142</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 4,625,000	0	145,000	4,480,000	2,245,000
Qualified zone academy bonds	700,000	0	0	700,000	0
Early retirement	10,189	0	8,491	1,698	1,698
Computer lease	0	15,400	4,108	11,292	3,458
Bus lease	0	54,810	9,099	45,711	6,937
Total	<u>\$ 5,335,189</u>	<u>70,210</u>	<u>166,698</u>	<u>5,238,701</u>	<u>2,257,093</u>

General Obligation Bonds Payable

On April 1, 2004, the District issued \$2,235,000 of general obligation refunding bonds, with interest rates ranging from 2.10% to 3.80%, for a crossover refunding of a portion of the general obligation bonds issued June 15, 1997. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$2,090,000 principal of the refunded general obligation bonds when they become callable on June 1, 2007 and the interest from April 1, 2004 to and including June 1, 2007 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 1, 2004			Bond Issue of June 15, 1997			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2007	2.10 %	\$ 0	70,105	5.25 %	\$ 2,245,000	117,995	\$ 2,245,000	188,100	2,433,100
2008	2.10	190,000	70,105		0	0	190,000	70,105	260,105
2009	2.40	205,000	66,115		0	0	205,000	66,115	271,115
2010	2.65	210,000	61,195		0	0	210,000	61,195	271,195
2011-2017	2.85-3.80	1,630,000	306,355		0	0	1,630,000	306,355	1,936,355
Total		\$ 2,235,000	573,875		\$ 2,245,000	117,995	\$ 4,480,000	691,870	5,171,870

Qualified Zone Academy Bonds

During the year ended June 30, 2003, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers from the Capital Projects - Local Option Sales and Services Tax fund to a debt sinking fund will be made to pay the indebtedness due December 15, 2010, of \$700,000.

Computer Lease

During the year ended June 30, 2006, the District entered into a computer lease from Apple Computer, Incorporated for 14 iBook computers. Principal and interest payments began during the year in the amounts of \$4,108 and \$291 respectively. The remaining principal and interest payments will be made from the Physical Plant and Equipment Levy Fund.

Details of the District's June 30, 2006 computer lease indebtedness are as follows:

Year Ending June 30,	Computer lease dated May 10, 2006				
	Interest Rates	Principal	Interest	Total	
2007	8.28 %	\$ 3,458	941	4,399	
2008	8.28	3,756	643	4,399	
2009	8.28	4,078	321	4,399	
Total		\$ 11,292	1,905	13,197	

Bus Lease

During the year ended June 30, 2006, the District entered into a bus lease with Blue Bird Body Company for one bus. Principal payments on the lease began during the year in the amount of \$9,099. The remaining principal and interest payments will be made from the Capital Projects Fund.

Details of the District's June 30, 2006 bus lease indebtedness are as follows:

Year Ending June 30,	Bus lease dated February 5, 2006		
	Principal	Interest	Total
2007	\$ 6,937	2,161	9,098
2008	7,264	1,834	9,098
2009	31,510	1,490	33,000
Total	\$ 45,711	5,485	51,196

Early Retirement

The District offers an early retirement incentives to employees. Early retirement incentive for the employees is equal to twelve months of health insurance. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement. District disbursements for early retirement for the year ended June 30, 2006 were \$8,491.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$104,189, \$105,771 and \$106,900, respectively, equal to the required contributions for each year.

(8) Risk Management

Sidney Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$109,205 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SIDNEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 2,164,462	81,450	2,245,912	2,136,012	2,136,012	109,900
State sources	1,801,552	2,248	1,803,800	1,874,819	1,874,819	(71,019)
Federal sources	170,584	83,474	254,058	190,000	190,000	64,058
Total revenues	4,136,598	167,172	4,303,770	4,200,831	4,200,831	102,939
Expenditures:						
Instruction	2,251,038	0	2,251,038	3,079,063	2,879,063	628,025
Support services	1,184,389	0	1,184,389	1,103,689	1,303,689	119,300
Non-instructional programs	0	178,277	178,277	210,313	210,313	32,036
Other expenditures	503,755	0	503,755	889,616	889,616	385,861
Total expenditures	3,939,182	178,277	4,117,459	5,282,681	5,282,681	1,165,222
Excess(Deficiency) of revenues over(under) expenditures	197,416	(11,105)	186,311	(1,081,850)	(1,081,850)	(1,268,161)
Other financing sources, net	86,346	0	86,346	0	0	(86,346)
Excess(Deficiency) of revenues and other financing sources over(under) expend	283,762	(11,105)	272,657	(1,081,850)	(1,081,850)	(1,354,507)
Balance beginning of year	2,767,771	50,387	2,818,158	1,081,850	1,081,850	1,736,308
Balance end of year	\$ 3,051,533	39,282	3,090,815	0	0	3,090,815

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment. The amendment created no change in total budgeted disbursements.

OTHER SUPPLEMENTARY INFORMATION

SIDNEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 32,781	32,376	15,339	80,496	76,426	156,922
Receivables:						
Property tax:						
Current year delinquent	1,443	0	626	2,069	0	2,069
Succeeding year	75,000	0	26,972	101,972	0	101,972
Due from other governments	0	0	0	0	15,546	15,546
TOTAL ASSETS	\$ 109,224	32,376	42,937	184,537	91,972	276,509
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	3,735	1,521	5,256	0	5,256
Deferred revenue:						
Succeeding year property tax	75,000	0	26,972	101,972	0	101,972
Total liabilities	75,000	3,735	28,493	107,228	0	107,228
Unreserved fund balances:	34,224	28,641	14,444	77,309	91,972	169,281
TOTAL LIABILITIES AND FUND BALANCES	\$ 109,224	32,376	42,937	184,537	91,972	276,509

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total	
	Manage-	Student	Physical Plant and Equipment		Capital Projects	Other Nonmajor Governmental Funds
	Levy	Activity	Levy	Total		
REVENUES:						
Local sources:						
Local tax	\$ 64,220	0	28,191	92,411	185,451	277,862
Other	3,155	75,233	7,487	85,875	5,889	91,764
State sources	51	0	22	73	0	73
TOTAL REVENUES	67,426	75,233	35,700	178,359	191,340	369,699
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	0	0	0	0	2,247	2,247
Other instruction	0	77,003	0	77,003	0	77,003
Support services:						
Instructional staff	0	0	21,589	21,589	11,871	33,460
Administration services	9,384	0	512	9,896	0	9,896
Operation and maintenance of plant services	39,569	0	0	39,569	0	39,569
Student transportation	6,978	0	45,371	52,349	60,110	112,459
Other expenditures:						
Facilities acquisitions	0	0	17,775	17,775	21,965	39,740
TOTAL EXPENDITURES	55,931	77,003	85,247	218,181	96,193	314,374
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	11,495	(1,770)	(49,547)	(39,822)	95,147	55,325
OTHER FINANCING SOURCES (USES):						
Sale of equipment	0	0	201	201	0	201
Transfers in	0	0	45,371	45,371	0	45,371
Transfers out	0	0	(4,399)	(4,399)	(173,470)	(177,869)
Proceeds from computer lease	0	0	15,400	15,400	0	15,400
Proceeds from bus lease	0	0	0	0	54,810	54,810
Total other financing sources (uses)	0	0	56,573	56,573	(118,660)	(62,087)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	11,495	(1,770)	7,026	16,751	(23,513)	(6,762)
FUND BALANCE BEGINNING OF YEAR	22,729	30,411	7,418	60,558	115,485	176,043
FUND BALANCE END OF YEAR	\$ 34,224	28,641	14,444	77,309	91,972	169,281

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Daisy Hummel Memorial	\$ 330	0	0	330
Musical	968	0	449	519
Vocal Music	355	0	150	205
Swing Choir/Jazz Band	473	0	(1)	474
JH Athletics	1,197	3,280	2,574	1,903
JH Girls Basketball	0	429	196	233
Golf	278	619	840	57
Boys Basketball	2,902	7,160	6,751	3,311
Football	2,557	6,965	8,182	1,340
FB Fundraiser	1	0	0	1
Baseball	(653)	2,072	1,419	0
Boys Track	0	1,929	1,854	75
Wrestling	24	4,505	4,429	100
Girls Basketball	2,917	3,950	3,812	3,055
Volleyball	643	2,012	2,074	581
Softball	721	2,444	3,165	0
Girls Track	0	601	521	80
Art Club	734	0	15	719
FFA	2,068	0	50	2,018
FCCLA	985	1,282	1,280	987
Honor Society	386	235	409	212
Letterman Club	1,601	5	252	1,354
Student Council HS	477	2,099	2,195	381
Student Council JH	1,026	548	295	1,279
Student Concession AC	1,035	1,000	2,035	0
Trophy Case	170	0	0	170
Band Projects	691	3,646	3,993	344
BB Cheerleaders	464	197	77	584
Class of 2005	170	0	0	170
Class of 2006	3,538	62	2,066	1,534
Class of 2007	820	6,964	5,400	2,384
Class of 2008	390	148	0	538
Class of 2009	0	75	18	57
FB Cheerleaders	1,264	2,470	3,524	210
WR Cheerleaders	10	562	572	0
Athletics Pop Machine	(97)	13,667	12,633	937
Elementary Activities	1,084	2,284	2,428	940
Industrial Arts	148	3	0	151
Interest	0	768	696	72
Elementary Pop Machine	320	1,598	1,555	363
Library	15	0	0	15
P.E. Fundraiser	304	0	0	304
Plays	0	654	0	654
Athletic Season	95	1,000	1,095	0
Total	\$ 30,411	75,233	77,003	28,641

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,758,105	1,633,214	1,675,765	1,433,751
Tuition		146,025	124,819	104,926	173,281
Other		260,332	285,964	151,977	350,657
State sources		1,801,552	1,649,337	1,579,256	1,658,398
Federal sources		170,584	196,792	149,207	119,652
Total	\$	4,136,598	3,890,126	3,661,131	3,735,739
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,451,545	1,383,753	1,378,326	1,382,236
Special instruction		488,056	442,290	432,934	524,800
Other instruction		311,437	298,717	279,155	301,715
Support services:					
Student services		134,148	113,912	108,455	120,595
Instructional staff services		133,909	78,533	72,056	69,904
Administration services		370,155	455,720	400,681	375,213
Operation and maintenance of plant services		288,372	278,940	245,471	246,308
Transportation services		257,805	149,636	162,110	101,515
Non-instructional programs		0	0	0	733
Other expenditures:					
Facilities acquisitions		39,740	240,802	646,678	151,158
Long-term debt:					
Principal		158,207	135,000	130,000	129,608
Interest and other charges		196,603	205,650	220,241	146,750
AEA flow-through		109,205	108,712	110,293	119,249
Total	\$	3,939,182	3,891,665	4,186,400	3,669,784

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Sidney Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sidney Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sidney Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sidney Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Sidney Community School District and other parties to whom Sidney Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sidney Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson P.C.
NOLTE, CORNMAN & JOHNSON, P.C.

October 9, 2006

SIDNEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - Our facility does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

Conclusion - Response accepted.

- I-C-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

I-D-06 Activity Fund - We noted during our audit that the Student Activity Fund contained a Class of 2005 account.

Recommendation - Once a class has graduated, the account should be closed and the remaining funds redistributed to other individual accounts in the Activity Fund.

Response - District management was waiting to hear from students in the class to decide what to do with remaining funds. The account has since been closed and the remaining funds were placed where the students decided to place them.

Conclusion - Response accepted.

I-E-06 Payroll Procedures - We noted during the audit that the District is not keeping track of hours worked for coaches who are non-certified staff. One employee's flex insurance benefits were being subtracted from the IPERS taxable wages before being subjected to taxation.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should review payroll procedures to make certain wages are being subjected to the proper taxation.

Response - District is reviewing payroll procedures in regards to keeping track of hours worked for non-certified staff. The IPERS situation with that employee has been rectified.

Conclusion - Response accepted.

SIDNEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions – No business transactions between the District and District officials were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by one student.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - We have contacted the Department of Education and the Department of Management and the situation has been rectified.
- Conclusion - Response accepted.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.